

## Message Text

LIMITED OFFICIAL USE

PAGE 01 VANCOU 00544 01 OF 05 132224Z

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 EA-07

PA-01 PRS-01 EPA-01 CEQ-01 /113 W

-----132357Z 054692 /63

R 132157Z JUN 77

FM AMCONSUL VANCOUVER

TO SECSTATE WASHDC 3532

INFO AMEMBASSY OTTAWA

ALL OTHER CONSULATES IN CANADA BY POUCH

LIMITED OFFICIAL USE SECTION 01 OF 05 VANCOUVER 0544

E.O. 11652: N/A

TAGS: ENRG, CA

SUBJECT: ENERGY SOURCES IN BRITISH COLUMBIA: OIL AND  
NATURAL GAS

REF: (A) VANCOUVER 274, (B) VANCOUVER 385, (C) OTTAWA 1432

1. SUMMARY. AS A RESULT OF ECONOMIC INCENTIVES AND OTHER ENCOURAGEMENT BY THE BRITISH COLUMBIA GOVERNMENT, EXPLORATION AND DEVELOPMENT ACTIVITY IN B.C. BY THE OIL AND NATURAL GAS INDUSTRY DRAMATICALLY IMPROVED OVER THE LOW 1974/75 LEVELS. THE OUTLOOK FOR SIGNIFICANT NEW OIL DISCOVERIES IS, HOWEVER, BLEAK. PRODUCTION IS FORECAST TO CONTINUE TO DECLINE AND BY 1991 OVER 90 PERCENT OF B.C.'S REQUIREMENTS WILL PROBABLY DEPEND UPON OUT-OF-PROVINCE SOURCES. WHILE B.C. SEEKS TO MAINTAIN MAXIMUM ACCESS TO ALBERTAN SUPPLIES, B.C. WILL IN THE LONG RUN ALMOST CERTAINLY NEED OFF-SHORE CRUDE AND THEREFORE HAS A CONSIDERABLE STAKE IN THE LOCATION OF AN OIL PORT ON THE WEST COAST. B.C.'S NATURAL GAS SUPPLY AND POTENTIAL, ON

LIMITED OFFICIAL USE

PAGE 02 VANCOU 00544 01 OF 05 132224Z

THE OTHER HAND, IS CONSIDERED ADEQUATE TO MEET DOMESTIC DEMAND THROUGH 1991 AND, ALONG WITH COAL AND ELECTRICITY, WILL INCREASE IN IMPORTANCE AS A FUEL FOR THE PROVINCIAL ENERGY MARKET. AT NO TIME, HOWEVER, WILL THE SUPPLY BE SUFFICIENT TO MEET BOTH DOMESTIC NEEDS AND EXPORT COMMITMENTS TO THE U.S. A DECISION ON THE LOCATION OF AN OIL PORT AND PIPELINE FOR MOVING ALASKAN CRUDE TO THE U.S.

MIDWEST IS IMPORTANT BOTH TO U.S. COMPANIES AND TO BRITISH COLUMBIA. FOR THE U.S. PACIFIC NORTHWEST, B.C.'S FULFILLMENT OF EXISTING GAS CONTRACTS WHICH RUN TO 1989 AND THE LEVEL OF THE EXPORT PRICE ARE OF PRIMARY IMPORTANCE. THE B.C. GOVERNMENT, WHICH RECEIVES SUBSTANTIAL EXPORT GAS REVENUES THROUGH ITS B.C. PETROLEUM CORPORATION, REPORTEDLY IS CONCERNED THAT THE PRICE OF DOLS 2.25 PER MCF PROPOSED BY THE NEB MAY BE TOO HIGH AND CAUSE U.S. GAS CUSTOMERS IN THE PACIFIC NORTHWEST TO SWITCH TO LESS COSTLY ALTERNATIVES. END SUMMARY.

2. NOTE: THIS REPORT IS THE LAST OF THREE REPORTS WHICH EXAMINE ENERGY SOURCES IN BRITISH COLUMBIA. REPORTS ON ELECTRICITY AND COAL WERE SUBMITTED BY REFTELS A AND B.

3. INTRODUCTION. FALLING PRODUCTION OF OIL AND NATURAL GAS IN BRITISH COLUMBIA, AND DECREASES IN PROVEN RESERVES, EMPHASIZED THE NEED FOR HIGH LEVELS OF EXPLORATION AND DEVELOPMENT ACTIVITY AND FOR FURTHER SIGNIFICANT DISCOVERIES IN THE PROVINCE. DURING THE 1973-75 PERIOD, RESOURCE TAXATION AND PRICE MEASURES ADOPTED BY THE FORMER NEW DEMOCRATIC GOVERNMENT IN B.C. AND THE FEDERAL GOVERNMENT IN OTTAWA, PLUS THE UNEXPECTED LONG-TERM WATER-CONING PROBLEMS IN SEVERAL MAJOR B.C. GAS FIELDS, COMBINED TO ACCELERATE DECLINING TRENDS. SUBSEQUENT REMEDIAL ACTION BY OTTAWA AND THE NEW SOCIAL CREDIT GOVERNMENT IN VICTORIA, HOWEVER, SIGNIFICANTLY BRIGHTENED THE INDUSTRY'S OUTLOOK IN 1976: HIGHER WELLHEAD PRICES, DECREASED OIL ROYALTIES AND OTHER ECONOMIC INCENTIVES OFFERED THE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 VANCOU 00544 01 OF 05 132224Z

PROSPECT OF HIGHER FINANCIAL RETURNS TO PRODUCERS, THUS ENCOURAGING INCREASED INTEREST AND INVESTMENT IN EXPLORATION AND DEVELOPMENT. AS A RESULT, ALL LEADING INDICATORS OF THE OIL AND GAS INDUSTRY -- LAND SALE ACTIVITY, GEOPHYSICAL ACTIVITY, ACTIVE RIGGS, AND WELL COMPLETION AND FOOTAGE DRILLED - - SHOWED DRAMATIC IMPROVEMENT IN BRITISH COLUMBIA IN 1976.

4. OIL SUPPLY AND DEMAND. WHILE OIL PRESENTLY MEETS 52 PERCENT OF BRITISH COLUMBIA'S TOTAL ENERGY REQUIREMENTS, OIL IS B.C.'S SCARCEST ENERGY RESOURCE. PROVEN RESERVES AT THE END OF 1975 WERE ESTABLISHED AT ONLY 105 MILLION BARRELS, DOWN 12 PERCENT FROM 1974 YEAR-END ESTIMATES, PARTIALLY AS A RESULT OF REVISED CALCULATION METHODS. NATIONALLY, THE B.C. RESERVES REPRESENT LITTLE MORE THAN ONE PERCENT OF CANADA'S TOTAL. DOMESTIC PROVINCIAL PRODUCTION PEAKED IN 1971 AT A RATE OF APPROXIMATELY 70,000 B/D AND FELL OFF SHARPLY TO ABOUT 40,000 B/D IN 1975, A FIGURE APPROXIMATING 2 PERCENT OF CANADA'S TOTAL

DAILY PRODUCTION. PRODUCTION ROSE MARGINALLY IN 1976 TO 43,000 B/D, BUT PROVIDED LESS THAN 28 PERCENT OF THE PROVINCE'S TOTAL OIL DEMAND OF 155,000 B/D. THE BALANCE OF B.C.'S DEMAND, 112,000 B/D, WAS SUPPLIED FROM ALBERTA. WHILE THE BRITISH COLUMBIA ENERGY COMMISSION (BCEC) FORECASTS A SHIFT FROM THE RELATIVE IMPORTANCE OF OIL IN MEETING B.C. ENERGY NEEDS TOWARD ELECTRICITY, NATURAL GAS AND COAL, THE PROJECTED OVERALL ENERGY CONSUMPTION GROWTH RATE OF 4 PERCENT YEARLY IN THE NEAR 5-YEAR TERM AND 3 PERCENT OVER THE LONGER 15-YEAR TERM MEANS, NEVERTHELESS, THAT OIL DEMAND WILL REACH 221,000 B/D BY 1985 AND 245,000 B/D BY 1991. THE SUPPLY SITUATION TO MEET THAT DEMAND IS BLEAK. THERE IS SOME POTENTIAL FOR FURTHER OIL

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 VANCOU 00544 02 OF 05 132233Z  
ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01  
CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07  
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06  
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 EA-07  
PA-01 PRS-01 EPA-01 CEQ-01 /113 W  
-----132357Z 054779 /63

R 132157Z JUN 77  
FM AMCONSUL VANCOUVER  
TO SECSTATE WASHDC 3533  
INFO AMEMBASSY OTTAWA  
ALL OTHER CONSULATES IN CANADA BY POUCH

LIMITED OFFICIAL USE SECTION 02 OF 05 VANCOUVER 0544

DISCOVERIES IN B.C., BUT DISCOVERIES OF ANY SIGNIFICANCE ARE NOT CONSIDERED LIKELY. THE B.C. DEPARTMENT OF MINES AND PETROLEUM RESOURCES HAS FORECAST A DECLINE IN THE FUTURE SUPPLY OF CRUDE OIL FROM KNOWN POOLS FROM CURRENT LEVELS TO ONLY 9,800 B/D BY 1991. TO THIS 1991 LEVEL, THE DEPARTMENT HAS ADDED, PERHAPS OPTIMISTICALLY, A SUPPLY FIGURE OF 11,600 B/D FROM FUTURE RESERVE ADDITIONS, BASED ON AN ASSUMPTION THAT A HISTORICAL DISCOVERY RATE OF ABOUT ONE MILLION BARRELS OF CRUDE OIL YEARLY WILL BE MAINTAINED OVER THE FORECAST PERIOD (IN 1975, HOWEVER, ONLY 77,000 BARRELS WERE ADDED TO THE PROVEN RESERVES). USING THIS METHODOLOGY, THE DEPARTMENT ESTIMATES THE OVERALL 1991

PRODUCTION RATE IS LIKELY TO AMOUNT TO NO MORE THAN 21,400 B/D, OR LESS THAN 9 PERCENT OF TOTAL B.C. DEMAND, AND THAT BRITISH COLUMBIA WILL BE DEPENDENT FOR OVER 90 PERCENT OF ITS REQUIREMENTS UPON OUT-OF-PROVINCE SOURCES.

5. FUTURE OIL SUPPLY SOURCES. TO MEET GROWING REQUIREMENTS FOR CRUDE OIL, THE B.C. GOVERNMENT SEEKS MAXIMUM ACCESS TO ALBERTA'S DWINDLING BUT RELATIVELY CHEAP AND LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 VANCOU 00544 02 OF 05 132233Z

HIGH QUALITY SUPPLIES FOR AS LONG AS POSSIBLE. IF B.C. SHOULD BE REQUIRED TO OBTAIN OIL SUPPLIES OFF-SHORE, SUBSTANTIAL EXTRA COSTS WOULD BE INCURRED AND PROSPECTS FOR SPECIAL SUBSIDIZATION FROM OTTAWA ARE VIEWED AS REMOTE. HIGHER COSTS WOULD ARISE EITHER FROM THE NECESSITY FOR PAYING PREMIUM PRICES (PLUS GREATER TRANSPORTATION COSTS) FOR TOP QUALITY OIL FROM WORLD MARKETS TO FEED B.C.'S EXISTING AND AGING REFINERIES (CURRENT TOTAL CAPACITY OF APPROXIMATELY 150,000 B/D) WHICH WERE DESIGNED TO USE ONLY THE BEST ALBERTAN OIL OR FROM COSTLY MODIFICATIONS TO THE REFINERIES TO ALLOW PROCESSING OF LOWER QUALITY CRUDE. THE AGE AND SMALL CAPACITY OF THE EXISTING REFINERIES WOULD PROBABLY DICTATE THAT THEY BE SCRAPPED AND REPLACED. WHILE ALBERTAN SUPPLIES ARE PROBABLY ASSURED OVER THE NEXT TWO OR THREE YEARS, THERE IS NO GUARANTEE THAT FEDERAL GOVERNMENT OIL POLICY WILL FAVOR B.C. OVER QUEBEC AND ONTARIO WHEN PROJECTED SHORTFALLS IN ALBERTA OIL SUPPLIES BEGIN TO SHOW UP AFTER 1981.

6. WEST COAST OIL PORT. WITH UNDERTAINTY OVER CONTINUED ALBERTAN SUPPLIES IN THE 1980'S, BRITISH COLUMBIA HAS AN IMPORTANT STAKE IN CURRENT DELIBERATIONS OVER THE POSSIBLE LOCATION OF AN OIL PORT OR PORTS ON THE WEST COAST TO SERVE THE NEEDS OF B.C., THE PUGET SOUND REFINERIES, AND THE U.S. MIDWEST. TO DATE, THE B.C. GOVERNMENT HAS MADE NO DEFINITIVE STATEMENT OF ITS POSITION ON OIL TERMINALS AND PIPELINES (I.E. KITIMAT VS. CHERRY POINT VS PORT ANGELES) AND PROBABLY WILL NOT DO SO PENDING THE FINAL REPORT OF THE FEDERAL KITIMAT OIL PORT INQUIRY BEING CONDUCTED BY DR. THOMPSON. STRONG ENVIRONMENTAL OPPOSITION HAS LED THE KITIMAT CONSORTIUM TO SHELVE ITS PROJECT IN FAVOR OF TRANS MOUNTAIN'S PROPOSAL TO REVERSE ITS PIPELINE FROM CHERRY POINT TO EDMONTON. HOWEVER, THE PROSPECT OF GREATLY INCREASED TANKER TRAFFIC TO CHERRY POINT HAS BEEN PUBLICLY DEPLORED BY PREMIER BENNETT AND OTHER GOVERNMENT OFFICIALS. ENVIRONMENTAL GROUPS PRESENTLY TEND TO FAVOR THE EXPORT TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 VANCOU 00544 02 OF 05 132233Z

PORT ANGELES OF THE OIL RISK INEVITABLY ASSOCIATED WITH ANY  
TERMINAL FACILITY. IN THE FINAL ANALYSIS, WE BELIEVE B.C.  
WOULD TILT TOWARD KITIMAT (THE FINAL DECISION, HOWEVER,  
IS OTTAWA'S) IF A SUITABLE TRADE-OFF CAN BE ARRANGED WHEREBY  
THE KITIMAT OIL PORT AND PIPELINE PROPOSAL CAN BE MODIFIED  
TO ALLOW THE POSSIBILITY FOR SUPPLYING B.C. REFINERIES AS  
WELL AS THE U.S. MIDWEST WITH ALASKAN OR OTHER OFF-SHORE  
CRUDE. (FOR FULLER TREATMENT OF THIS DISCUSSION, SEE  
REFTEL C.)

7. GAS SUPPLY AND DEMAND. NATURAL GAS ACCOUNTS FOR ABOUT  
22 PERCENT OF B.C.'S ENERGY DEMANDS AND, UNLIKE THE  
SITUATION WITH REGARD TO CRUDE OIL, THE DOMESTIC PROVINCIAL  
SUPPLY IS PROBABLY MORE THAN ADEQUATE TO MEET EVEN UN-  
CONSTRAINED DOMESTIC DEMAND THROUGH AT LEAST 1991, ALTHOUGH  
AT NO TIME WILL SUPPLY BE SUFFICIENT TO SATISFY BOTH B.C.  
DEMAND AND THE VOLUMES STIPULATED UNDER THE PRESENT LICENSES  
FOR EXPORT TO THE U.S. GIVEN THIS FAVORABLE PROVINCIAL  
SUPPLY OUTLOOK, NATURAL GAS WILL UNDOUBTEDLY ASSUME GREATER  
IMPORTANCE IN B.C. AS A FUEL FOR THE ENERGY MARKET. WHILE  
THE BCEC HAS FORECAST GROWTH RATES OF ONLY 3 TO 4 PERCENT  
IN TOTAL ENERGY CONSUMPTION OVER THE NEXT FIFTEEN YEARS,  
NATURAL GAS CONSUMPTION IS EXPECTED TO GROW AT A COMPOUND  
RATE OF 4.7 TO 5.4 PERCENT OVER THAT SAME PERIOD AND AT 7.2  
TO 8.5 PERCENT IN THE NEAR 5-YEAR TERM. SUCH GROWTH IS  
SUSTAINABLE ON THE BASIS OF PROVEN NATURAL GAS RESERVES IN  
BRITISH COLUMBIA OF 6.9 TRILLION CUBIC FEET AT 1975 YEAR-  
END. THESE RESERVES ARE OVER 10 PERCENT OF CANADA'S TOTAL  
PROVEN RESERVES AND THE RECENT LEVEL OF RESERVE ADDITIONS,  
RISING FROM ABOUT 135 BCF IN THE 1974-75 DRILLING SEASON  
TO 295 BCF IN 1975-76, HAS BEEN ENCOURAGING TO THE INDUSTRY  
AND A MEASURE OF THE SUCCESS OF THE ECONOMIC INCENTIVES

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 VANCOU 00544 03 OF 05 132243Z

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 EA-07

PA-01 PRS-01 EPA-01 CEQ-01 /113 W

-----132356Z 054843 /63

R 132157Z JUN 77  
FM AMCONSUL VANCOUVER  
TO SECSTATE WASHDC 3534  
AMEMBASSY OTTAWA  
ALL OTHER CONSULATES IN CANADA (POUCH)

LIMITED OFFICIAL USE SECTION 03 OF 05 VANCOUVER 0544

OFFERED UP IN 1975-76 BY THE SOCRED GOVERNMENT TO ENCOURAGE  
RENEWED GAS EXPLORATION ACTIVITY. ECONOFF WAS RECENTLY  
ADVISED THAT 1976-77 STATISTICS ON RESERVE ADDITIONS, NOT  
YET COMPLETED, WILL PROBABLY SHOW EVEN FURTHER IMPROVEMENT  
AND MAY EQUAL OR EXCEED THE TOTAL AMOUNT OF GAS PRODUCED  
IN B.C. IN 1976.

8. DOMESTIC CONSUMPTION VS. EXPORTS. NATURAL GAS  
PRODUCTION IN BRITISH COLUMBIA PEAKED AT A TOTAL VOLUME  
OF APPROXIMATELY 480 BCF IN 1973 AND DECLINED TO AN  
ESTIMATED 360 BCF IN 1976. BCEC EXPECTS THIS PRODUCTION  
VOLUME TO BE MAINTAINED WITH LITTLE VARIATION ON A YEARLY  
BASIS THROUGH 1991. DOMESTIC PROVINCIAL REQUIREMENTS,  
WHICH TO DATE HAVE BEEN ACCORDED PRIORITY TREATMENT AT THE  
EXPENSE OF MEETING EXPORT COMMITMENTS TO THE U.S.  
TOTALING 295 BCF ANNUALLY THROUGH 1989, ARE FORECAST TO  
MORE THAN DOUBLE FROM 150 BCF IN 1976 TO 328 BCF IN 1991.  
THESE REQUIREMENTS ARE PREDICATED UPON AN ASSUMED ANNUAL  
CONSUMPTION GROWTH RATE OF 4.8 PERCENT, A COMPOUND RATE  
WHICH MAY BE FOUND TO ERR ON THE LOW SIDE IN VIEW OF B.C.'S  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 VANCOU 00544 03 OF 05 132243Z

INCREASINGLY UNBALANCED OIL SUPPLY/DEMAND PROJECTIONS.  
ASSUMING THAT THE B.C. GOVERNMENT CONTINUES TO TAKE ACTION  
NECESSARY TO ENSURE THE PRIOR FULFILLMENT OF UNCONSTRAINED  
DOMESTIC REQUIREMENTS, THE DEFICIENCY IN EXPORT SHIPMENTS  
FROM B.C. DOMESTIC SUPPLIES WILL STEADILY RISE FROM  
NEARLY 70 BCF IN 1975 AND 82 BCF IN 1976 TO OVER 240 BCF  
(80 PERCENT OF CONTRACTED VOLUME) IN 1988. SEVERAL  
DEVELOPMENTS MAY REDUCE SUCH LARGE EXPORT DEFICITS AND  
PROTECT THE B.C. GOVERNMENT AGAINST THE SERIOUS LOSS OF  
DIRECT EXPORT REVENUES TO ITS CROWN AGENCY, B.C.  
PETROLEUM CORPORATION (BCPC), WHICH BUYS AND SELLS  
VIRTUALLY ALL GAS PRODUCED IN THE PROVINCE:

A. THE EXPORT DEFICIENCY TO DATE HAS BEEN LIMITED BY  
THE TRANSFER OF GAS SUPPLIES FROM ALBERTA. THE B.C.  
EXPORTER, WESTCOAST TRANSMISSION (WHICH MUST BUY B.C.  
DOMESTIC GAS FROM BCPC FOR AN AMOUNT EQUAL TO THE GROSS  
REVENUE RECEIVED UPON RESALE OF THE GAS TO THE U.S.  
CUSTOMER LESS THE COMPANY'S COST OF SERVICE), ARRANGED

IN 1975 FOR THE DIRECT PURCHASE OF APPROXIMATELY 58 MMCF DAILY (ABOUT 21 BCF ANNUALLY) UNTIL APRIL 1977. AT THAT TIME, NEW CONTRACT ARRANGEMENTS WITH PAN-ALBERTA WERE CONCLUDED, ALTHOUGH THE B.C. GOVERNMENT WAS INITIALLY OPPOSED FOR FEAR THE AVAILABILITY OF ALBERTA GAS WOULD DAMPEN AND EVEN NEGATE SUBSTANTIAL INDUCEMENTS ALREADY IN PLACE TO PROMOTE GREATER B.C. EXPLORATION FOR GAS SUPPLIES TO MEET EXPORT DEFICIENCIES. WESTCOAST, WHICH HAD BEEN INCREASINGLY CONCERNED THAT IT WAS OPEN TO SUCCESSFUL LEGAL CHALLENGES BY ITS U.S. CUSTOMERS IN THE EVENT IT CONTINUED TO FAIL TO MEET EXPORT COMMITMENTS DESPITE THE AVAILABILITY OF SURPLUS GAS IN ALBERTA, OVERCAME B.C. GOVERNMENT OPPOSITION THROUGH CONTRACT PROVISIONS WITH PAN-ALBERTA WHICH PROVIDE A CUSHION AGAINST THE POSSIBILITY OF SIGNIFICANT B.C. GAS DISCOVERIES BECOMING AVAILABLE FOR EXPORT IN THE NEAR TERM. UNDER THE AGREEMENT, WESTCOAST WILL HAVE A FIRM CALL ON 145 MMCF DAILY AT 72 LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 VANCOU 00544 03 OF 05 132243Z

PERCENT LOAD FACTOR FOR 12 YEARS AND ON AN ADDITIONAL 55 MMCF DAILY ON A "BEST EFFORTS" BASIS WITH THE RIGHT TO CONVERT THE LATTER TO A FIRM CONTRACT BY OCTOBER 1, 1981. THIS NEW CONTRACT WILL MAKE UP ROUGHLY HALF OF THE PROJECTED DEFICIT TO THE U.S. THE BALANCE MAY POSSIBLY COME FROM NEW B.C. GAS, FRONTIER GAS LATER IN THE 1980'S, OR PERHAPS FROM FURTHER PURCHASES OF EXCESS ALBERTA GAS WHICH HAS RESULTED FROM ENHANCED PRODUCTIVITY ATTRIBUTED TO RECENT ECONOMIC INCENTIVES TO DEVELOP PREVIOUSLY UNECONOMICAL SHALLOW GAS RESERVES.

B. OVER THE LONGER RUN, THE MOST OBVIOUS ALTERNATIVE SOURCE OF NATURAL GAS SUPPLY FOR B.C. AND FOR THE LATTER YEARS OF THE U.S. EXPORT CONTRACT WITH WESTCOAST IS IN THE MACKENZIE DELTA AREA AND THE ARCTIC ISLANDS. WESTCOAST TRANSMISSION IS INVOLVED IN BOTH NORTHERN GAS OVERLAND ROUTES: ARCTIC GAS AND THE ALASKA HIGHWAY (ALCAN) ROUTE WHICH COULD TIE IN CANADIAN GAS VIA THE DEMPSTER HIGHWAY OR THE ALL-CANADIAN MAPLE LEAF PIPELINE. THE ASSUMPTION HAS BEEN MADE BY THE BCEC, HOWEVER, THAT SUCH SUPPLIES AT BEST WOULD NOT BECOME AVAILABLE BEFORE 1984 AND WOULD AMOUNT TO 163 BCF YEARLY THEREAFTER. EVEN THIS ASSUMPTION WOULD MEAN THAT WITH UNCONSTRAINED PROVINCIAL DEMAND GROWTH ANNUAL SUPPLIES AVAILABLE TO THE EXPORT MARKET IN 1983 WILL HAVE DECREASED TO ONLY 95 BCF (DEMAND CONSTRAINED AT 1978 LEVELS WOULD FREE UP AN ADDITIONAL 90 BCF BY 1983 FOR A TOTAL EXPORT SUPPLY OF 185 BCF OR 62 PERCENT OF THE CONTRACT LEVEL). FOR THE REMAINING SIX

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 VANCOU 00544 04 OF 05 132252Z  
ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01  
CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07  
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06  
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 EA-07  
PA-01 PRS-01 EPA-01 CEQ-01 /113 W  
-----132356Z 054929 /63

R 132157Z JUN 77  
FM AMCONSUL VANCOUVER  
TO SECSTATE WASHDC 3535  
INFO AMEMBASSY OTTAWA  
ALL OTHER CONSULATES IN CANADA (POUCH)

LIMITED OFFICIAL USE SECTION 04 OF 05 VANCOUVER 0544

YEARS OF THE CONTRACT (1984-1989), HOWEVER, FRONTIER GAS  
SUPPLIES AT THE 163 BCF LEVEL WOULD CUT THE EXPORT  
DEFICIENCY DRASTICALLY TO AN ANNUAL AVERAGE OF LESS THAN  
50 BCF.

C. APART FROM INCREASING THE ABSOLUTE VOLUME OF NATURAL  
GAS SUPPLY TO B.C. AND TO ITS EXPORT CUSTOMERS, I.E.,  
THROUGH PURCHASES FROM ALBERTA AND THE DEVELOPMENT OF  
NORTHERN FRONTIER SOURCES, THE BCEC IS NOW STUDYING THE  
POSSIBILITY OF INFLUENCING GAS CONSUMPTION THROUGH PRICING  
POLICIES, REGULATED END-USES, AND GREATER CONSERVATION  
EFFORTS. OF PARTICULAR CONCERN ARE "WASTEFUL" USES,  
ASSUMING ALTERNATIVES ARE AVAILABLE, EXEMPLIFIED BY THE  
PRESENT BURNING OF LARGE VOLUMES OF GAS IN INDUSTRIAL  
BOILERS TO PRODUCE STEAM AND ELECTRICITY AND IN B.C.  
HYDRO'S BURRARD THERMAL PLANT TO PRODUCE ELECTRICITY. B.C.  
HYDRO, FOR EXAMPLE, FORECASTS THAT ITS BURRARD PLANT WILL  
OPERATE ALMOST SOLELY ON GAS THROUGH 1991 AND THAT THE GAS  
REQUIREMENT WILL ESCALATE SHARPLY AFTER 1978 FROM 1.9 BCF  
TO OVER 45 BCF IN 1982. ON AVERAGE, HYDRO EXPECTS TO CON-  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 VANCOU 00544 04 OF 05 132252Z

SUME 25 BCF ANNUALLY DURING THE PERIOD 1979-1991. PRICING  
POLICIES AND CONSERVATION EMPHASIS, IN THIS INSTANCE,



COULD BOTH DECREASE ELECTRICITY DEMAND AND/OR ENCOURAGE THE DEVELOPMENT OF COAL AS AN ALTERNATIVE FUEL (SEE REFTEL B) FOR A NET SAVING OF NATURAL GAS IN THE HYDRO FACILITY, A CONSEQUENT DECREASE IN OVERALL PROVINCIAL GAS DEMAND, AND A GREATER SUPPLY POSSIBILITY TO MEET EXPORT COMMITMENTS.

9. U.S. INTEREST.

A. OIL: THE U.S. INTEREST PRIMARILY RELATES TO THE POSSIBILITY OF AN OIL PORT BEING ESTABLISHED ON THE B.C. COAST TO RECEIVE ALASKAN CRUDE FOR TRANSIT TO THE U.S. MIDWEST. AS OF LAST WEEK, THE KITIMAT PROJECT, WHICH WOULD HAVE SERVED THIS NEED, WAS SUSPENDED IN FAVOR OF THE TRANS MOUNTAIN PROPOSAL TO REVERSE ITS PIPELINE FROM CHERRY POINT TO EDMONTON. THIS PROPOSAL, HOWEVER, WOULD BE LIMITED BY THE PIPELINE'S SHORT-TERM INABILITY TO CARRY MORE THAN 300,000 B/D EASTWARDS INTO THE INTERPROVINCIAL PIPELINE NETWORK SERVING THE U.S. NORTHERN TIER STATES (THE REMAINING 150,000 B/D CAPACITY OF TRANS MOUNTAIN'S PIPELINE WOULD CONTINUE TO CARRY ALBERTA CRUDE WESTWARD TO B.C. REFINERIES). BY FORCING ALL PARTIES TO FOCUS ON THE TRANS MOUNTAIN PROPOSAL, THE KITIMAT CONSORTIUM SAVES BOTH TIME AND MONEY ON FURTHER BACK-STOPPING STUDIES FOR ITS OWN PROJECT AND DEFLECTS THE FIRE OF ENVIRONMENTAL AND OTHER CRITICS ONTO SUCH ISSUES AS TANKER TRAFFIC TO THE CHERRY POINT TERMINAL. THE CONSORTIUM BELIEVES THAT THE TRANS MOUNTAIN HEARINGS, BOTH BY THE THOMPSON INQUIRY AND THE NEB, MAY SUBSEQUENTLY ESTABLISH THAT THE KITIMAT PORT AND PIPELINE IS THE SUPERIOR PROPOSAL IN COMPARISON. IN THIS EVENT, THE KITIMAT COMPANY THEN HOPES THAT THE GOC WILL DECLARE ITS PROJECT TO BE IN THE CANADIAN NATIONAL INTEREST AND WILL URGE THE B.C. GOVERNMENT TO FACILITATE IT. THIS IS A STEP THE BENNETT ADMINISTRATION HAS BEEN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 VANCOU 00544 04 OF 05 132252Z

RELUCTANT TO TAKE IN THE FACE OF ENVIRONMENTAL, INDIAN AND FISHING OPPOSITION AND IN THE ABSENCE OF ANY PERCEIVED ECONOMIC BENEFIT FOR THE PROVINCE.

B. GAS: SUPPLY AND COST OF B.C. GAS IS OF IMPORTANCE TO THE U.S. AND TO THE PACIFIC NORTHWEST STATES IN PARTICULAR. IN THE NEAR-TERM, WESTCOAST TRANSMISSION'S NEW CONTRACT FOR SURPLUS ALBERTA GAS, PLUS ADDITIONAL VOLUMES OF GAS TO BE PRODUCED IN BRITISH COLUMBIA AS A RESULT OF EXPANDED EXPLORATION ACTIVITY, SHOULD TEMPORARILY LESSEN THE SIZE OF THE EXPORT DEFICITS, ALTHOUGH A REPEAT OF SEVERE WINTER CONDITIONS IN THE U.S. COULD AGGRAVATE THE SUPPLY SITUATION IN ANY PARTICULAR YEAR. ALSO, THE BCEC HAS FOUND THAT THE MARKET RESPONSE IN THE PACIFIC NORTHWEST TO HIGHER GAS

PRICES COULD REDUCE CONSUMPTION IN THE EXPORT MARKET, ALTHOUGH "IT IS UNLIKELY THAT HIGHER PRICES WILL BE ABLE TO CURTAIL DEMAND TO THE AVAILABLE SUPPLY" IN THE LONGER RUN. BCEC'S 1976 ANNUAL REVIEW OF THE GAS SITUATION ALSO STATES THAT EVEN WITH THE AVAILABILITY OF FRONTIER GAS IN 1984, AND DESPITE ANY REDUCTION IN EXPORT DEMAND RESULTING FROM HIGHER PRICES, "A POTENTIALLY SEVERE SUPPLY SHORTAGE IS HIGHLY PROBABLE." ON THE QUESTION OF EXPORT PRICES, THE BRITISH COLUMBIA GOVERNMENT IN THE PAST HAS CHAMPIONED CONTINUED INCREASES, NOT FOR PURPOSES OF LIMITING DEMAND BUT AS A MEANS TO BOOST GOVERNMENT REVENUES THROUGH THE B.C. PETROLEUM COMPANY. HOWEVER, REPORTS THAT THE NATIONAL ENERGY BOARD HAS RECOMMENDED AN INCREASE IN THE GAS PRICE FROM DOLS 1.94 PER MCF TO DOLS 2.25 PER MCF HAVE TRIGGERED CONCERN THAT THE 16 PERCENT INCREASE MIGHT BE TOO HIGH AND CAUSE U.S. GAS CUSTOMERS IN THE PACIFIC NORTHWEST TO SWITCH TO OTHER LESS COSTLY ENERGY ALTERNATIVES. CONGEN UNDERSTANDS THE B.C. GOVERNMENT MAY NOW BE URGING OTTAWA TO

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 VANCOU 00544 05 OF 05 132332Z  
ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01  
CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07  
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06  
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 EA-07  
PA-01 PRS-01 EPA-01 CEQ-01 /113 W  
-----132355Z 055422 /63

R 132157Z JUN 77  
FM AMCONSUL VANCOUVER  
TO SECSTATE WASHDC 0000  
INFO AMEMBASSY OTTAWA  
ALL OTHER CONSULATES IN CANADA (POUCH)

LIMITED OFFICIAL USE SECTION 05 OF 05 VANCOUVER 0544

LIMIT THE INCREASE TO A PERCENTAGE REPRESENTING THE INFLATION FACTOR ONLY. LUPPI

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** REPORTS, SUPPLIES, PETROLEUM PRODUCTION, NATURAL GAS, OILS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 13-Jun-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977VANCOU00544  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770211-0118  
**Format:** TEL  
**From:** VANCOUVER  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770661/aaaacbuf.tel  
**Line Count:** 543  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** b4b3c97d-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 10  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 VANCOUVER 274, 77 VANCOUVER 385, 77 OTTAWA 1432  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 27-Dec-2004 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2169602  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ENERGY SOURCES IN BRITISH COLUMBIA: OIL AND NATURAL GAS  
**TAGS:** ENRG, CA  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/b4b3c97d-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009